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Sugar

Annual 2008

2008

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Report Highlights:
Pakistan's MY 2008/09 sugar production is forecast at 3.67 million metric tons (MMT), 12 percent lower than the current year's estimate. Total annual consumption is forecast at 4.2 million metric tons. Trial production of sugar beet has proven successful but further research is needed.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Islamabad [PK1]
[PK]

Table of Contents

Executive Summary

For MY 2008/09, Pakistan's total centrifugal sugar production is forecast at 3.67 MMT, a decrease of 15 percent as compared with the 2007/08 estimate. The decline in production is mainly due to actions taken by sugar mill authorities which adversely affected cane prices. Despite strong efforts to achieve self-sufficiency and sustainability, cane production remained cyclic over the past decade. Sugar consumption is on the rise. The MY 2008/09 forecast is 4.2 MMT due to increased demand mainly driven by population growth and enhanced industrial activity. The supply gap will be filled through imports.

MY 2007/08 achieved robust sugar production estimated at 4.163 MMT mainly due to enhanced area and production and favorable weather. The sugar cane crop gained 12 percent more area over the previous year due to higher prices received by growers during the previous year.

The Ministry of Food, Agriculture and Livestock (MINFAL), in consultation with the Provincial Governments of Punjab and Sindh and the Pakistan Sugar Mills Association (PSMA), is taking measures to increase sugarcane productivity and linking the cane price with sugar recovery percentage. Supplementing cane production with sugar beet has proved successful but research continues to determine if industrial adoption and commercialization are viable.

SUGARCANE

Production

Sugarcane, an important cash crop, is grown on over a million hectares and provides the raw material for Pakistan's 78 sugar mills -- which comprise the country's second largest agro-industry. Sugarcane production is cyclic as farmers and industry continues to work at odds. Industry procurement practices such as delaying the crushing season, buying cane at less than the support price, short weight, false deductions and delayed payments reduce returns to farmers. Sugar millers complain that farmers grow unapproved varieties with low sucrose content, thus resulting in lower sugar production.

For MY 2007/08, sugarcane production is estimated at 61.5 MMT, an increase of 12 percent over the previous year due to increases in both area and yield. Higher cane prices, favorable weather conditions and fewer pests and diseases helped achieve higher yields. Improved profitability has encouraged farmers to convert area from competing crops, particularly cotton in the main cotton belt, to sugarcane.

MY 2008/09 sugarcane production is forecast at 55 MMT, a decline of 10 percent over the previous year due to an expected decline in area and yield. Milling policies of the current crushing season have provided strong disincentives to sugarcane growers. Sugar mills reduced the price offered per 40 kilos by Rs 5.0 – about US$ 0.08 – and continued the practice of taking large deductions to meet their cane quality standards, causing cane growers to shift to more profitable crops.

Table 1: Sugarcane Area and Production by Province

Province	Area ('000' hectares)			Production ('000' MT)		
	MY 2006/07	MY 2007/08	MY 2008/09	MY 2006/07	MY 2007/08	MY 2008/09
Punjab	712.00	805.00	725.00	37,542	42,453	38,335
Sindh	215.00	240.00	215.00	12,529	13,950	12,550
NWFP	106.00	115.00	105.00	4,800	5,100	4,500
Baluch	0.0	0.00	0.00	0.0	0.0	0.0
Total	**1033.00**	**1160.00**	**1045.00**	**54,871**	**61,503**	**55,385**

Sources: Ministry of Food, Agriculture and Livestock; FAS/Islamabad

Production Policy

The Government of Pakistan (GOP) is striving to achieve self-sufficiency and sustainability in sugar production by ensuring the availability of inputs and establishing a sugarcane support price which is acceptable to all stakeholders. The sugar industry is looking for added value and by-products, as well as reducing costs and promoting cultivation of high sucrose cane.

The Government supports cane production by setting an indicative price, which is announced either before or after planting. The Federal government generally does not procure cane, but authorizes Provincial governments to fix respective cane prices in consultation with representatives of both the sugar industry and farmer organizations.

The Ministry of Food, Agriculture and Livestock (MINFAL) is in consultation with the Pakistan Sugar Mills Association (PSMA) in an effort to increase sugarcane productivity and to increase the capacity of sugar mills which are currently operating at 50 percent. The GOP is also looking to amend the Sugar Factory Control Act of 1950 in order to create a more conducive environment among stakeholders. A technical committee has been appointed by the GOP to develop a methodology of linking sugarcane prices with sugar recovery percentage. This qualitative measure should improve the production dynamics and profitability of both farmers and millers.

Table 2: Indicative Prices of Sugarcane by Province

(Rs. per 40 kg/ Rs. 61= 1USD)

YEAR	PUNJAB	SINDH	NWFP	BALUCHISTAN
2000-01	35.00	36.00	35.00	36.00
2001-02	42.00	43.00	42.00	43.00
2002-03	40.00	43.00	42.00	43.00
2003-04	40.00	41.00	42.00	43.00
2004-05	40.00	43.00	42.00	43.00
2005-06	45.00	58.00	48.00	-
2006-07	60.00	67.00	48.00	-
2007-08	60.00	67.00	65.00	-
2008-09	**60.00**	**67.00**	**65.00**	-

SUGAR

Production

For MY 2007/08, refined sugar production is estimated to increase to 4.143 MMT (raw value), mainly due to an increase in sugar cane area and improved productivity due to favorable weather conditions and decreased pest pressure.

MY 2008/09 refined sugar production is forecast at 3.67 MMT, primarily due to an expected drop in both area and production of sugar cane. As the country's requirement is 4.2 MMT, domestic production will be supplemented through imports.

The Agriculture Ministry and the Pakistan Sugar Mills Association have initiated a sugar crop development project. Punjab and Sindh Provinces have already conducted research in the cultivation of sugar beet. Results have been encouraging. Industrial adoption and commercialization of sugar beet requires additional research as well as comprehensive planning on the part of government, industry and the farm community to make cultivation of this potential crop a success.

Table 3: Refined Sugar production, Supply and Demand

Country	**Pakistan**								
Commodity	**Sugar, Centrifugal (UOM 1000 MT)**								
	2007 Revised			**2008 Estimate**			**2009 Forecast**		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Beginning Stocks	1260	1260	1260	1060	1060	1060	1010	0	1163
Beet Sugar Production	15	15	15	20	20	20	0	0	20
Cane Sugar Production	3600	3600	3600	3700	3700	4143	0	0	3650
Total Sugar Production	3615	3615	3615	3720	3720	4163	0	0	3670
Raw Imports	0	0	0	0	0	0	0	0	0
Refined Imp.(Raw Val)	200	200	200	400	400	110	0	0	550
Total Imports	200	200	200	400	400	110	0	0	0
Total Supply	5075	5075	5075	5180	5180	5333	1010	0	5383
Raw Exports	65	65	65	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	70	70	70	0	0	70
Total Exports	65	65	65	70	70	70	0	0	70
Human Dom. Cons.	3950	3950	3950	4100	4100	4100	0	0	4200
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	3950	3950	3950	4100	4100	4100	0	0	4270
Ending Stocks	1060	1060	1060	1010	1010	1163	0	0	1113
Total Distribution	5075	5075	5075	5180	5180	5333	0	0	0

Consumption

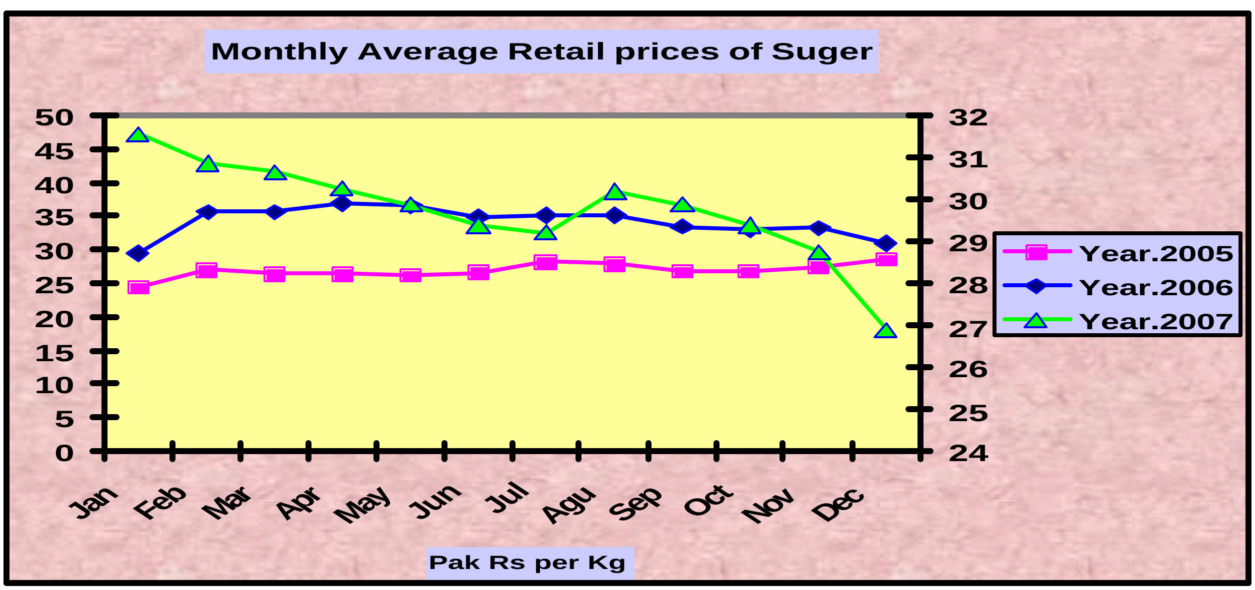
MY 2008/09 sugar consumption is forecast at 4.2 MMT due to population increase and enhanced industrial use. Total per capita refined sugar consumption is estimated at 25 kilograms, based on improved domestic supply and strong demand. Retail sugar prices will continue to hover around Rs. 29 (US$ 0.48) per kilogram, which is 14 percent below last year's prices. The stability of retail prices will be dependent upon the management of timely imports.

Table 4: Retail Prices of Sugar

(Rs. per Kg/ Rs. 61= 1USD)

YEAR/MONTH	2003	2004	2005	2006	2007
JANUARY	19.83	18.53	24.35	29.49	31.55
FEBRUARY	20.14	18.16	27.00	35.05	30.83
MARCH	19.97	17.86	26.33	35.61	30.63
APRIL	19.83	18.52	26.27	36.77	30.25
MAY	19.71	19.10	26.15	36.32	29.85
JUNE	19.52	19.26	26.46	34.91	28.38
JULY	19.26	19.49	28.06	35.06	29.20
AUGUST	19.16	20.62	27.85	34.98	30.17
SEPTEMBER	19.79	20.75	26.65	33.43	29.85
OCTOBER	19.93	20.78	26.71	32.87	29.36
NOVEMBER	19.49	21.62	27.50	33.15	28.75
DECEMBER	19.17	21.52	28.47	3.0.86	26.89
AVERAGE	**19.65 $0.33**	**19.68 $0.33**	**26.82 $0.45**	**34.08 $0.57**	**29.64 $0.49**

Graph: Monthly Price per Kilo 2005-2007 (61 Rupees = US$ 1.00)



The GOP has decided to include sugar in the compulsory list of items to monitor for quality. Previously, quality assurance was the responsibility of the manufacturer. However, samples of sugar produced from various mills were declared unfit for human consumption due to high levels of sulphur dioxide. The Pakistan Standards and Quality Control Authority (PSQCA), a regulatory body, is responsible for ensuring product quality and standards.

Trade

MY 2007/08 sugar imports are estimated at 106,747 MT. At present, prevailing market prices are lower than prices received by mills to offload their stocks. There are reports that a major portion of 450,000 MT of duty free sugar from India destined for Afghanistan via Karachi under the Afghan Transit Trade (ATT) arrangement has ended up in Pakistan. Since Afghanistan's annual sugar consumption is only 150,000 MT, PSMA has voiced concerns that India is distorting Pakistan's domestic sugar market.

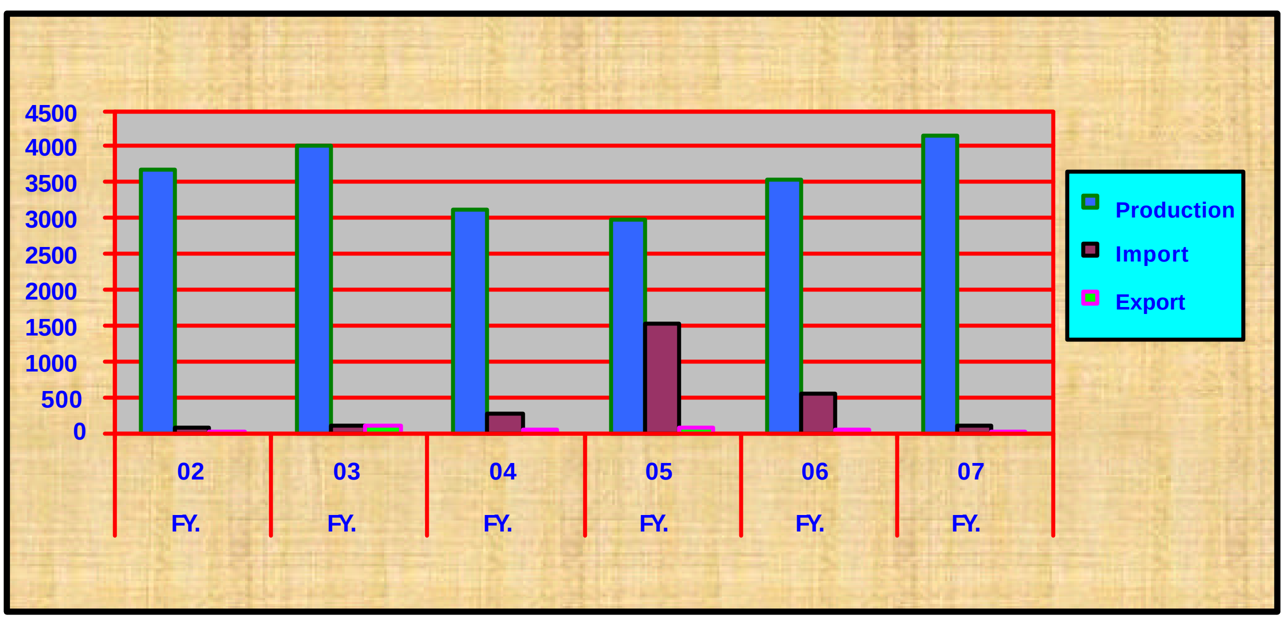
MY 2008/09 sugar imports are forecast at 0.550 MMT. Both the state-owned Trading Corporation of Pakistan and private traders are expected to import sugar.

Table 5: Sugar Production, Imports and Exports

(Figures in Thousand Metric Tons)

Fiscal Year (FY)	Production	Imports	Exports
2002	3,676	83	32
2003	4,020	114	116
2004	3,115	267	54
2005	2,988	1,527	61
2006	3,519	565	47
2007	4,163	110	12

Graph: Sugar Production, Imports and Exports by Fiscal Year (1,000 MT)



Stocks

MY 2008/09 stocks are forecast at 1.113 MMT, based on projected supply-demand scenarios and trade expectations.

OTHER RELEVANT REPORTS

REPORT #	SUBJECT	DATE SUBMITTED
PK 7008	Sugar Annual	04/25/2007
PK 7024	Sugar Semi- Annual	09/28/2007
PK 8003	Sugar Export Alert	02/04/2008

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